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Exploring pricing strategies and their impact on financial performance of SMEs in Nigeria

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Abstract

This study explores the impact of pricing strategies on the financial performance of Small and Medium-sized Enterprises (SMEs) in Nigeria, aiming to identify effective approaches for enhancing profitability and competitiveness. Conducted in Lagos, the research employed a mixed-methods design, collecting data from 175 SMEs across manufacturing, retail, services, technology, and healthcare sectors through structured questionnaires and interviews with 15 SME owners. The scope included examining cost-based, value-based, and dynamic pricing strategies, alongside the frequency of pricing reviews. Results indicate that cost-based pricing was most common (22.9%), but value-based pricing yielded the highest financial performance rating (4.2 on a 5-point scale), followed by dynamic pricing (4.0), compared to cost-based (3.8). Regression analysis confirmed significant correlations between value-based ($p<0.01$) and dynamic pricing ($p<0.05$) with profitability. Quarterly and monthly pricing reviews (31.4% and 20.0% of SMEs) were linked to higher performance than annual reviews. Interviews highlighted that value-based pricing enhances customer loyalty, while dynamic pricing enables adaptability to Nigeria's volatile market. The study concludes that value-based and dynamic pricing, supported by frequent reviews, significantly improve SME profitability and resilience. These findings offer practical guidance for SME owners to adopt customer-centric and adaptive pricing strategies and underscore the need for training programs to support implementation, contributing to SME sustainability in Nigeria's challenging economic landscape.

Keywords: Pricing strategies; Small and Medium Enterprises; Financial performance; Value-based pricing, Dynamic pricing; Market adaptability

1. Introduction

Small and Medium-sized Enterprises (SMEs) are the backbone of economic development in many countries, particularly in emerging economies like Nigeria, where they contribute significantly to employment, innovation, and gross domestic product (GDP) [1]. In Nigeria, SMEs account for approximately 48% of GDP and 84% of employment, underscoring their critical role in fostering economic resilience [2]. However, these enterprises face substantial challenges, including intense competition, limited access to finance, and volatile market conditions, which often undermine their financial performance [3]. Among the strategic decisions that influence SMEs' sustainability, pricing stands out as a pivotal factor. Pricing strategies not only determine revenue streams but also shape market positioning, customer perceptions, and long-term competitiveness [4]. This study explores how different pricing strategies specifically cost-based, value-based, and dynamic pricing impact the financial performance of SMEs in Nigeria, focusing on metrics such as profitability and revenue growth.

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The importance of pricing strategies for SMEs cannot be overstated. Effective pricing enables businesses to cover costs, achieve profitability, and respond to market dynamics, while poorly designed pricing can lead to financial losses or loss of market share [5]. In Nigeria's economic context, characterized by inflation, currency fluctuations, and shifting consumer preferences, SMEs must adopt pricing strategies that balance profitability with customer value [6]. The choice of pricing strategy whether based on production costs, perceived customer value, or dynamic market adjustments directly influences financial outcomes. For instance, cost-based pricing, which relies on production costs plus a markup, is straightforward but may fail to capture market opportunities [7]. In contrast, value-based pricing aligns prices with customer perceptions of value, potentially yielding higher margins [8]. Dynamic pricing, which adjusts prices in response to market conditions, offers flexibility but requires sophisticated market analysis [9]. Understanding which strategies best enhance financial performance is crucial for SMEs navigating Nigeria's challenging business environment.

The purpose of this study is to investigate the relationship between pricing strategies and financial performance among Nigerian SMEs. The specific objectives are threefold: (1) to identify the predominant pricing strategies employed by SMEs across various industries, (2) to examine the correlation between these strategies and financial performance metrics, such as profitability and revenue growth, and (3) to evaluate the role of pricing strategy review frequency in enhancing financial outcomes. These objectives were developed based on the recognition that pricing decisions are a critical lever for SME success, yet there is limited empirical evidence on their impact in the Nigerian context [10]. The hypothesis guiding this research is that there is a significant positive correlation between the adoption of value-based and dynamic pricing strategies and improved financial performance among SMEs, compared to traditional cost-based approaches.

The development of this hypothesis stems from both theoretical and practical considerations. Theoretically, pricing literature suggests that strategies aligned with customer value and market dynamics outperform cost-driven approaches in competitive settings [8]. Prospect Theory, for instance, posits that customers make purchasing decisions based on perceived value rather than absolute price, supporting the efficacy of value-based pricing [11]. Similarly, the Resource-Based View (RBV) framework emphasizes that firms with adaptive capabilities, such as dynamic pricing, can leverage market responsiveness to achieve competitive advantage [12]. Practically, Nigeria's economic volatility marked by inflation rates averaging 15–20% annually and frequent supply chain disruptions demands pricing strategies that are flexible and market-oriented [13]. Observations from preliminary discussions with SME owners in Lagos revealed that many struggle with pricing decisions due to limited market data and competitive pressures, prompting the need to explore which strategies yield optimal financial results.

The importance of this study lies in its potential to address a critical gap in the literature. While pricing strategies have been extensively studied in developed economies, their application in emerging markets like Nigeria remains underexplored [14]. Nigerian SMEs operate in a unique context, characterized by high operational costs, limited technological adoption, and diverse consumer behaviors [15]. For example, the retail and service sectors often face intense price competition, while technology-driven SMEs may leverage innovative pricing models to capture niche markets [16]. Understanding how different pricing strategies influence financial performance can provide actionable insights for SME owners, policymakers, and support agencies like the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). Moreover, this research contributes to the broader discourse on SME sustainability by highlighting the role of strategic pricing in navigating economic challenges.

The motivation for this study also arises from the need to empower SMEs with evidence-based strategies to enhance their financial viability. Many Nigerian SMEs fail within their first five years due to financial mismanagement or inability to compete effectively [17]. Pricing, as a controllable variable, offers a direct pathway to improve revenue and profitability without requiring significant capital investment [18]. By examining the prevalence and effectiveness of pricing strategies, this study aims to provide a roadmap for SMEs to optimize their pricing decisions. For instance, the adoption of value-based pricing could enable SMEs to differentiate themselves in crowded markets, while dynamic pricing could help them respond to rapid changes in consumer demand or input costs [19]. The frequency of pricing strategy reviews is another critical factor, as regular adjustments may allow SMEs to stay aligned with market trends and customer expectations [20].

Furthermore, this research is timely given the increasing digitalization of Nigeria's SME sector. The rise of e-commerce and digital payment systems has introduced new pricing dynamics, such as subscription-based models and real-time price adjustments, which could enhance financial performance [21]. However, many SMEs lack the knowledge or resources to implement these strategies effectively [22]. By analyzing empirical data from a diverse sample of SMEs, this study seeks to bridge this knowledge gap and offer practical recommendations tailored to Nigeria's economic realities. The findings are expected to inform SME owners on how to select and adapt pricing strategies that maximize profitability while maintaining customer satisfaction.

2. Materials and Methods

This study employed a mixed-methods research design to investigate the relationship between pricing strategies and financial performance of Small and Medium-sized Enterprises (SMEs) in Nigeria. The approach combined quantitative data from structured questionnaires with qualitative insights from semi-structured interviews, ensuring a comprehensive analysis of pricing dynamics and their financial implications.

The study population comprised SMEs in Lagos, Nigeria, defined by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) criteria: enterprises with 11–300 employees and annual turnover below 100 million Naira. A stratified random sampling technique was used to select 175 SMEs across five sectors: manufacturing, retail, services, technology, and healthcare. Each sector was proportionally represented to reflect industry diversity, with approximately 35 SMEs per sector. This sampling method ensured representativeness and minimized bias.

Data collection involved a structured questionnaire designed to capture data on pricing strategies (cost-based, value-based, dynamic, penetration, skimming, competitive, and others), financial performance metrics (profitability, revenue growth), and pricing review frequency. The questionnaire used a 5-point Likert scale for performance ratings and multiple-choice options for strategy types. Validity was ensured through expert review by two academic researchers, and reliability was confirmed via a pilot study with 10 SMEs, yielding a Cronbach's alpha of 0.82. Additionally, semi-structured interviews were conducted with 15 SME owners or managers to gain qualitative insights into pricing decision-making processes. Interviews lasted 20–30 minutes and were audio-recorded with consent.

Data analysis utilized both quantitative and qualitative methods. Descriptive statistics, including means, medians, and standard deviations, were calculated to summarize the distribution of pricing strategies and financial performance ratings using SPSS version 25. Correlation and regression analyses assessed the relationship between pricing strategies and financial outcomes, with significance set at $p<0.05$. Qualitative data from interviews were analyzed thematically, identifying key themes related to pricing challenges and strategies. Triangulation of quantitative and qualitative findings enhanced the robustness of the results. Questionnaires were administered in person and via secure online platforms, ensuring accessibility. Interview data were transcribed verbatim and stored securely to maintain confidentiality.

Ethical considerations were addressed. Informed consent was obtained from all 175 survey participants and 15 interviewees, ensuring voluntary participation and awareness of data use for research and publication. Participants were informed of their right to withdraw at any time, and data were anonymized to protect privacy.

The methodology allowed for reproducible results, providing a clear framework for other researchers to replicate the study in similar contexts. The combination of quantitative and qualitative approaches ensured a holistic understanding of pricing strategies' impact on SME financial performance in Nigeria's dynamic economic environment.

3. Results

This study investigated the relationship between pricing strategies and financial performance of Small and Medium-sized Enterprises (SMEs) in Nigeria, focusing on identifying predominant pricing strategies, their correlation with financial outcomes, and the impact of pricing review frequency. The results, derived from a survey of 175 SMEs in Lagos and interviews with 15 SME owners, are presented below, aligned with the study's objectives, followed by a discussion linking findings to existing literature.

3.1. Objective 1: Identify Predominant Pricing Strategies

The distribution of pricing strategies among the 175 SMEs is summarized in Table 1. Cost-based pricing was the most common, adopted by 40 SMEs (22.9%), followed by value-based pricing (30 SMEs, 17.1%) and competitive pricing (25 SMEs, 14.3%). Dynamic pricing and penetration pricing were used by 20 (11.4%) and 25 (14.3%) SMEs, respectively, while skimming pricing was less common (15 SMEs, 8.6%). Other strategies, such as bundle pricing, accounted for 20 SMEs (11.4%). The diversity in pricing approaches reflects the varied nature of industries surveyed, including manufacturing, retail, services, technology, and healthcare.

Table 1 Distribution of Pricing Strategies Employed by SMEs

Pricing Strategy	Number of SMEs	Percentage (%)
Cost-based pricing	40	22.9%
Value-based pricing	30	17.1%
Dynamic pricing	20	11.4%
Penetration pricing	25	14.3%
Skimming pricing	15	8.6%
Competitive pricing	25	14.3%
Other	20	11.4%

3.2. Objective 2: Examine Correlation with Financial Performance

The relationship between pricing strategies and financial performance, measured by profitability and revenue growth on a 5-point Likert scale (1 = very low, 5 = very high), is presented in Table 2. Value-based pricing yielded the highest average financial performance rating (4.2, SD = 0.6), followed by dynamic pricing (4.0, SD = 0.7) and competitive pricing (3.9, SD = 0.8). Cost-based pricing had a lower rating (3.8, SD = 0.9), while penetration and skimming pricing scored 3.6 (SD = 1.0) and 3.7 (SD = 0.9), respectively. Regression analysis revealed a significant positive correlation between value-based pricing ($\beta = 0.45$, $p<0.01$) and dynamic pricing ($\beta = 0.38$, $p<0.05$) with financial performance, whereas cost-based pricing showed a weaker correlation ($\beta = 0.22$, $p=0.08$).

Table 2 Relationship Between Pricing Strategies and Financial Performance

Pricing Strategy	Financial Performance Rating (Mean)	Standard Deviation (SD)
Cost-based pricing	3.8	0.9
Value-based pricing	4.2	0.6
Dynamic pricing	4.0	0.7
Penetration pricing	3.6	1.0
Skimming pricing	3.7	0.9
Competitive pricing	3.9	0.8
Other	4.1	0.7

3.3. Objective 3: Evaluate Role of Pricing Strategy Review Frequency

Table 3 Frequency of Pricing Strategy Review and Adjustment

Review Frequency	Number of SMEs	Percentage (%)	Financial Performance Rating (Mean)
Daily	10	5.7%	4.0
Weekly	20	11.4%	4.1
Monthly	35	20.0%	4.1
Quarterly	55	31.4%	4.1
Annually	55	31.4%	3.7

The frequency of pricing strategy reviews is shown in Table 3. Quarterly reviews were adopted by 55 SMEs (31.4%), as were annual reviews (55 SMEs, 31.4%). Monthly reviews were used by 35 SMEs (20.0%), weekly by 20 (11.4%), and daily by 10 (5.7%). SMEs with quarterly or monthly reviews reported higher financial performance ratings (mean = 4.1, SD = 0.6) compared to those with annual reviews (mean = 3.7, SD = 0.8). Correlation analysis indicated a significant positive relationship between review frequency and financial performance ($r = 0.32$, $p<0.05$), with more frequent reviews linked to better outcomes.

3.4. Qualitative Insights

Interviews with 15 SME owners provided deeper insights. Owners using value-based pricing emphasized aligning prices with customer perceptions, noting, “Customers are willing to pay more when they see unique value in our products.” Dynamic pricing adopters highlighted responsiveness to market changes, such as adjusting prices during peak demand. Conversely, cost-based pricing users cited simplicity but acknowledged limitations in competitive markets. Frequent pricing reviews were described as essential for adapting to Nigeria’s volatile economic conditions, such as inflation and supply chain disruptions.

4. Discussion

The results confirm the hypothesis that value-based and dynamic pricing strategies are associated with superior financial performance compared to cost-based pricing, aligning with the study’s objectives. The prevalence of cost-based pricing (22.9%) reflects its simplicity and accessibility for SMEs with limited resources [1]. However, its lower financial performance rating (3.8) suggests it may not capture market opportunities effectively, as it focuses on costs rather than customer value or market dynamics [2]. This finding corroborates Nagle and Müller [3], who argue that cost-based pricing often leads to suboptimal pricing decisions by ignoring consumer willingness to pay.

Value-based pricing’s superior performance (mean = 4.2) supports Prospect Theory, which posits that customers base purchasing decisions on perceived value rather than absolute price [4]. SMEs adopting this strategy likely benefit from aligning prices with customer expectations, particularly in service and technology sectors where differentiation is key [5]. Interview insights reinforce this, with owners noting higher customer satisfaction and loyalty. Similarly, dynamic pricing (mean = 4.0) enables SMEs to respond to market fluctuations, such as seasonal demand or economic shifts, a critical advantage in Nigeria’s volatile market [6]. Chen and Liu [7] highlight that dynamic pricing enhances revenue by capitalizing on real-time market data, a trend observed in technology-driven SMEs in this study.

The significant correlation between value-based ($\beta = 0.45$, $p<0.01$) and dynamic pricing ($\beta = 0.38$, $p<0.05$) with financial performance underscores their effectiveness. These strategies allow SMEs to maximize margins and adapt to competitive pressures, unlike penetration or skimming pricing, which showed weaker correlations ($\beta = 0.15$ and 0.18, respectively). Penetration pricing’s lower rating (3.6) may reflect its focus on market entry rather than sustained profitability, while skimming pricing (3.7) is less prevalent due to its suitability for niche, high-value products [8]. Competitive pricing (3.9) performed moderately well, likely due to its alignment with market standards, but it risks price wars in Nigeria’s crowded markets [9].

The role of pricing review frequency is equally critical. Quarterly and monthly reviews (mean = 4.1) were associated with higher financial performance than annual reviews (mean = 3.7), supporting the need for adaptability in dynamic markets [10]. Frequent reviews enable SMEs to adjust prices in response to inflation (15–20% annually in Nigeria) and supply chain disruptions, as noted in interviews [11]. This aligns with Grewal et al. [12], who emphasize that regular pricing adjustments enhance market responsiveness. SMEs with less frequent reviews may miss opportunities to optimize pricing, particularly in fast-changing sectors like retail and technology.

Qualitative findings highlight practical challenges. Owners using cost-based pricing noted its ease of implementation but struggled with competitive differentiation. In contrast, value-based and dynamic pricing adopters reported higher initial setup costs (e.g., market research, technology) but better long-term outcomes. These insights suggest that resource constraints may limit SMEs’ ability to adopt sophisticated pricing strategies, a challenge also noted in emerging markets by Kotler and Keller [13].

The findings have implications for SME owners and policymakers. Adopting value-based or dynamic pricing could enhance profitability, particularly for SMEs in competitive sectors. Regular pricing reviews, ideally quarterly, should be prioritized to maintain market alignment. Support agencies like SMEDAN could facilitate training on advanced pricing techniques to address resource gaps [14]. Future research should explore the role of digital tools in enabling dynamic pricing and the impact of sector-specific factors on pricing effectiveness.

5. Conclusion

This study reveals that pricing strategies significantly influence the financial performance of Small and Medium-sized Enterprises in Nigeria. Value-based and dynamic pricing strategies outperform cost-based approaches, achieving higher profitability and revenue growth due to their alignment with customer value and market dynamics. Specifically, value-based pricing fosters customer loyalty by reflecting perceived value, while dynamic pricing enables adaptability to Nigeria's volatile economic conditions, such as inflation and demand fluctuations. The prevalence of cost-based pricing, though common due to its simplicity, limits financial outcomes, underscoring the need for SMEs to adopt more sophisticated strategies. Additionally, frequent pricing reviews, particularly quarterly or monthly, enhance financial performance by enabling timely adjustments to market changes, a critical factor in competitive sectors like retail and technology. The findings are highly relevant for SME owners seeking to improve profitability without significant capital investment. Adopting value-based or dynamic pricing can provide a competitive edge, particularly in Nigeria's challenging business environment. The study also highlights the importance of regular pricing evaluations to maintain market responsiveness, offering a practical strategy for SMEs to navigate economic uncertainties. For policymakers and support agencies, these insights emphasize the need for training programs to equip SMEs with the tools and knowledge to implement advanced pricing strategies effectively. This research contributes valuable evidence on pricing's role in SME sustainability, addressing a gap in the Nigerian context. By demonstrating the financial benefits of customer-centric and adaptive pricing, the study provides a roadmap for SMEs to enhance their economic contributions, fostering resilience and growth in an emerging market.

Compliance with ethical standards

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Disclosure of conflict of interest

Chinonso Benjamin Obiajulu declares no conflicts of interest or competing interests with the publication of this manuscript, including no affiliations with institutions or products mentioned in the study or with competing products that could influence the research outcomes.

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